

FALL RIVER WATER USERS DISTRICT

FINANCIAL REPORT

DECEMBER 31, 2013 and 2012

FALL RIVER WATER USERS DISTRICT

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DeSmet and Biggs, LLP
Certified Public Accountants

Dennis O. DeSmet, CPA
Teresa A. Biggs, CPA

Lonnie J. Hosman, CPA
Megan L. Kinder, CPA

Jenny L. Donovan, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Fall River Water Users District
Oral, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Fall River Water Users District of Oral, South Dakota, (District) as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fall River Water Users District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Internal Control Over Financial Reporting (continued)

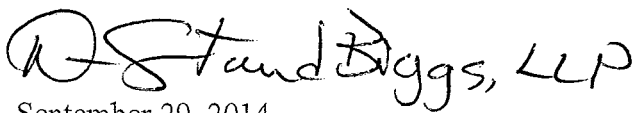
A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2013-1 and 2013-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fall River Water User District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Handwritten signature of R. Stand Biggs, LLP in cursive script.

September 29, 2014

FALL RIVER WATER USERS DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Prior Financial Statement Findings

2012-01

A reportable condition and material weakness was reported for a lack of segregation of duties in the District's accounting systems.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of the Fall River Water Users District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist and is restated under the current audit findings as finding number 2013-01.

2012-02

A reportable condition and material weakness for lack of controls over the period-end reporting process and preparation of financial statements in accordance with generally accepted accounting principles.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. The District has determined that it is not cost beneficial to employ additional personnel just to prepare the financial statements in accordance with generally accepted principles and will continue to outsource this function. The District will continue to review all proposed adjustments and review, approve, and accept responsibility for the financial statements. However, this lack of controls over the financial statement preparation continues to exist and is restated under the current audit findings as finding number 2013-02.

FALL RIVER WATER USERS DISTRICT
SCHEDULE OF CURRENT AUDIT FINDINGS

Finding Number 2013-01

A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for the revenues, expenditures and payroll systems.

Analysis:

For the revenues, expenditures and payroll functions, there is a lack of segregation of duties because one person performs a major portion of the procedures with few checks and balances. This may affect the completeness and existence of transactions. This could lead to miscoding of transactions and/or transactions not being recorded.

Recommendation

We recommend the Fall River Water Users District officials be cognizant of this lack of segregation of duties for revenues, expenditures and payroll, and attempt to provide compensating internal controls whenever and wherever possible and practical.

Corrective Action Plan:

The District Board President is the contact person responsible for the corrective action plan for these comments. These comments are the result of the size of Fall River Water Users District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, expenditures and payroll. The District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties continues to exist.

Finding Number 2013-02

A material weakness in controls to provide oversight of the financial reporting process was disclosed by our audit. The District's management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). We noted the absence of appropriate internal controls in the following areas:

- The District does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are presented in accordance with generally accepted accounting principles. As such, management requested us to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in entities of this size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs. Management reviewed the adjustments and also reviewed, approved, and accepted responsibility for those financial statements prior to their issuance. The adjustments were to reclassify capital expenditures to the proper accounts and adjust year-end account balances to the correct amount. Also it is the District's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

FALL RIVER WATER USERS DISTRICT

SCHEDULE OF CURRENT AUDIT FINDINGS (CONTINUED)

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

Corrective Action Plan:

The District Board President is the contact person responsible for the correction action plan for these comments. The District has determined that it would require additional staff to have the financial statements prepared in accordance with generally accepted accounting principles and will continue to outsource this function. The District will review all adjustments and also review, approve, and accept responsibility for the financial statements prior to their issuance and accepts the degree of risk associated with this condition.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fall River Water Users District
Hot Springs, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the Fall River Water Users District, South Dakota, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Fall River Water Users User District, South Dakota, as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Fall River Water Users District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by *Governmental Auditing Standards* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.


September 29, 2014

BALANCE SHEETS

FALL RIVER WATER USERS DISTRICT

STATEMENTS OF NET POSITION

ASSETS

	December 31,	
	2013	2012
Current Assets		
Cash and cash equivalents		
Restricted for debt service	\$ 121,133	\$ 109,465
Water service account	247,200	89,498
Other	<u>25,756</u>	<u>166,560</u>
Total cash and cash equivalents	394,089	365,523
Inventory	13,742	10,668
Accounts receivable, less allowance for doubtful accounts	<u>57,526</u>	<u>77,268</u>
Total current assets	<u>465,357</u>	<u>453,459</u>
Capital Assets		
Land	123,690	123,690
Buildings/leasehold improvements	108,258	108,258
Equipment and vehicles	104,680	96,980
Water delivery system	12,812,349	12,752,819
Construction in progress	<u>971,741</u>	<u>452,475</u>
Total capital assets	14,120,718	13,534,222
Less accumulated depreciation	<u>(1,934,004)</u>	<u>(1,746,576)</u>
Net capital assets	<u>12,186,714</u>	<u>11,787,646</u>
Total Assets	<u>\$12,652,071</u>	<u>\$12,241,105</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET POSITION

	December 31,	
	2013	2012
Current Liabilities		
Accounts payable	\$ 19,781	\$ 35,460
Accounts payable - construction in progress	-	250,854
Meter deposits payable	16,125	16,125
Current maturities of long-term liabilities	62,060	60,070
Short-term interim financing	906,841	239,891
Hook-up fees refundable	10,979	10,979
Other current liabilities	<u>12,207</u>	<u>10,664</u>
Total current liabilities	<u>1,027,993</u>	<u>624,043</u>
Long-Term Liabilities		
State revolving fund loan, less current maturities	693,781	724,186
Other long-term loans, less current maturities	<u>2,302,580</u>	<u>2,334,240</u>
Total long-term liabilities	<u>2,996,361</u>	<u>3,058,426</u>
Total liabilities	<u>4,024,354</u>	<u>3,682,469</u>
Net Position		
Net investment in capital assets	8,419,972	8,429,258
Restricted for debt service	121,133	109,465
Unrestricted net position	<u>86,612</u>	<u>19,913</u>
Total net position	<u>8,627,717</u>	<u>8,558,636</u>
Total Liabilities and Net Position	<u>\$12,652,071</u>	<u>\$12,241,105</u>

FALL RIVER WATER USERS DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended December 31,	
	2013	2012
Operating Revenues:		
Water sales	\$ 749,476	\$ 676,857
Other	<u>49,192</u>	<u>61,079</u>
Total operating revenue	<u>798,668</u>	<u>737,936</u>
Operating Expenses:		
Costs of sales and service	177,400	293,833
Administrative	275,534	248,037
Depreciation	<u>368,296</u>	<u>275,995</u>
Total operating expenses	<u>821,230</u>	<u>817,865</u>
Operating income (loss)	<u>(22,562)</u>	<u>(79,929)</u>
Nonoperating Revenues (Expenses):		
Interest income	67	422
Interest expense	<u>(106,947)</u>	<u>(112,438)</u>
Total nonoperating revenues (expenses)	<u>(106,880)</u>	<u>(112,016)</u>
Change in net position before capital contributions	(129,442)	(191,945)
Capital contributions	<u>198,523</u>	<u>254,700</u>
Change in net position	69,081	62,755
Total Net Position - Beginning	<u>8,558,636</u>	<u>8,495,881</u>
Total Net Position - Ending	<u>\$ 8,627,717</u>	<u>\$ 8,558,636</u>

The accompanying notes are an integral part of
these financial statements.

STATEMENTS OF CASH FLOWS

FALL RIVER WATER USERS DISTRICT

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2013	2012
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 769,218	\$ 663,716
Payments to suppliers for good and services	(398,652)	(409,142)
Payments to employees	(71,282)	(122,288)
Other receipts	49,192	61,079
Cash Provided by Operating Activities	<u>348,476</u>	<u>193,365</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from long-term borrowing	666,950	239,891
Acquisition and construction of capital assets	(1,018,217)	(513,170)
Payments for interest on long-term debt	(107,159)	(112,438)
Principal paid on debt	(60,074)	(123,300)
Capital contributions	198,523	254,700
Cash Used in Capital and Related Financing Activities	<u>(319,977)</u>	<u>(254,317)</u>
Cash Flows From Investing Activities		
Interest received	67	422
Certificates of deposits redeemed	-	119,607
Cash Provided by Investing Activities	<u>67</u>	<u>120,029</u>
Net Increase in Cash and Cash Equivalents	28,566	59,077
Cash and Cash Equivalents Balances - Beginning	<u>365,523</u>	<u>306,446</u>
Cash and Cash Equivalents Balances - End of Year	<u>\$ 394,089</u>	<u>\$ 365,523</u>

The accompanying notes are an integral part of
these financial statements.

	For the Years Ended December 31,	
	2013	2012
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities:		
Operating income (loss)	\$ (22,562)	\$ (79,929)
Adjustments to reconcile operating income (loss) to net cash provided by operations:		
Depreciation	368,296	275,995
(Increase) decrease in accounts receivable	19,742	(11,641)
(Increase) decrease in inventory	(3,074)	(883)
Increase (decrease) in accounts payable	(15,680)	11,454
Increase (decrease) in other current liabilities	<u>1,754</u>	<u>(1,631)</u>
Cash Provided by Operating Activities	<u>\$ 348,476</u>	<u>\$ 193,365</u>

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Note 1. Summary of Significant Accounting Policies

Organization

The Fall River Water Users District (the District) was organized in July of 1992 under the authority of Chapter 46A-9-16 of the South Dakota Codified Laws of 1967, as amended, as a water user district.

The District was organized to construct or acquire a water system to conserve, control and distribute potable water to homes, pastures, feedlots, and elsewhere deemed feasible. The system consists of pumps, filtering and treatment plants, storage tanks, mains, pipelines, booster pumps and other water works deemed necessary to pump, filter, treat, store and distribute potable water.

The District provides water to users in primarily the Fall River County in South Dakota and has its office in Oral, South Dakota. An elected Board of Directors consisting of seven directors governs the District. The District is authorized to exercise the power of eminent domain, and is a political subdivision of the State of South Dakota.

The District has no taxing powers and has no power to levy assessments. No governmental authority will have the power to levy or collect taxes of assessments for the purpose of paying, in whole or in part, any indebtedness or obligations incurred by the District in which the District is in any manner liable. Nor any privately owned property within or outside the District, or the owner thereof, nor any city, town, county, irrigation district, political subdivision, or public or private corporation will be liable for any such District indebtedness or obligation beyond the liability to perform the obligations of any express contract between such owner or public or private organizations and the District.

Financial Reporting Entity

The reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based on the above criteria, the District does not have any component units that require inclusion in the financial statements. Conversely, the District is not a component unit of another government.

Basis of presentation

The accounting policies of the Fall River Water Users District confirm to U.S. generally accepted accounting principles applicable to governmental enterprise funds.

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The District, as a utility enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The accompanying financial statements reflect the flow of economic resources measurement focus, applied on the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows.

The district distinguishes operating revenues and expenses from non-operating items. Operating revenues consist principally of water sales to customers. Expenses include the costs of operating the District, including the purchase and treatment of water, personnel, administration, professional services, maintenance, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses or contributions. Non-operating revenues and expenses include interest income and interest expense amounts and contributions (if any) include construction revenue from customers and grants.

Deposits and Investments

The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

The District’s policy is to report deposits at cost plus interest and credit all income from the deposit to the fund making the investment.

The actual depository bank balances at December 31 were as follows:

	2013	2012
Insured (FDIC/NCUA)	\$ 320,519	\$ 271,652
Uninsured, collateral jointly held by District's agent in the name of the state and the pledging financial institution.	125,962	245,065
Total Deposits	<u>\$ 446,481</u>	<u>\$ 516,717</u>

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Deposits and investments (continued)

The District's book balance of bank deposits was \$394,054 at December 31, 2013.

Investments - In general, SDCL 4-5-6 permits water district funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. The District had no investments at December 31, 2013 or 2012.

Deposits are reported at cost, plus interest, if the account is the add-on type. All deposits are made in qualified depositories as defined by SDCL 4-6A-1.

Cash and Cash Equivalents

For purpose of the statements of cash flows, the District considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Refundable Amounts

The service agreement provides that hookup fees and meter deposits collected, net of expenses, are refundable if service is not or cannot be provided to the prospective user. These funds are held in savings with a portion of the service fund also designated for refundable payments.

	<u>2013</u>	<u>2012</u>
Savings	\$ 27,104	\$ 16,125
East Oral Study Account	-	10,979
	<u>\$ 27,104</u>	<u>\$ 27,104</u>

Inventory

Inventory is made up of spare parts to repair the existing system or meter pits used to add on additional users. Inventory is valued at the lesser of cost or market.

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are stated at face value net of allowance for doubtful accounts and consist of balances due from customers. Receivable detail at December 31 is as follows:

	2013	2012
Accounts Receivable	\$ 58,526	\$ 78,268
Allowance for Doubtful Accounts	<u>(1,000)</u>	<u>(1,000)</u>
Net Accounts Receivable	<u>\$ 57,526</u>	<u>\$ 77,268</u>

Capital Assets

Property, plant and equipment are stated at historical cost and/or cumulative cost of construction, which includes interest on construction in progress prior to the asset being put in service. Interest related to the water delivery system is capitalized during the period of initial construction until the system is put into service. The amount of interest capitalized in 2013 and 2012 was \$12,773 and \$1,513, respectively. The District's primary asset is a water delivery system consisting of water mains, pumps and booster stations, and storage tanks. Except for land, all assets greater than \$1,000 with a useful life of more than one year are depreciated using the straight-line method over their useful lives. Based on engineering estimates, the useful lives of the components for the water delivery system are as follows:

Water Mains	50 years
Pumps and Booster Stations	20 years
Storage Tank	50 years
Vehicles and Office Equipment	5 years

Net Position Classifications

Equity is classified as net position and is displayed in three components.

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – Consists of all other net position that do not meet the definition of "restricted" or "investment in capital assets, net of related debt." Unlike the restricted net position, the Board of Directors has discretion in determining the use of any unrestricted net position. The Board may at any time change or eliminate amounts established for these purposes.

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Application of Net Position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Revenue and Expense Classification

In the Statements of Revenues and Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transaction for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

Note 2. Changes in Capital Assets

Changes in Capital Assets for the years ended December 31 were as follows:

		2013			
		Beginning	Additions	Deletions	Ending
Non-Depreciable Assets					
Land		\$ 123,690	\$ -	\$ -	\$ 123,690
Depreciable Assets					
Buildings and leasehold improvement	108,258		-	-	108,258
Office equipment and vehicles	96,980		7,700	-	104,680
Water delivery system	12,752,819		240,396	180,868	12,812,347
Construction-in-progress	452,475		519,266	-	971,741
Totals		<u>\$ 13,410,532</u>	<u>\$ 767,362</u>	<u>\$ 180,868</u>	<u>\$ 13,997,026</u>
Accumulated Depreciation		<u>\$ 1,746,576</u>	<u>\$ 368,296</u>	<u>\$ 180,868</u>	<u>\$ 1,934,004</u>

		2012			
		Beginning	Additions	Deletions	Ending
Non-Depreciable Assets					
Land		\$ 123,690	\$ -	\$ -	\$ 123,690
Depreciable Assets					
Buildings and leasehold improvemen	108,258		-	-	108,258
Office equipment and vehicles	97,958		-	978	96,980
Water delivery system	10,718,743		2,034,076	-	12,752,819
Construction-in-progress	1,721,827		441,988	1,711,340	452,475
Totals		<u>\$ 12,646,786</u>	<u>\$ 2,476,064</u>	<u>\$ 1,712,318</u>	<u>\$ 13,410,532</u>
Accumulated Depreciation		<u>\$ 1,470,860</u>	<u>\$ 275,995</u>	<u>\$ 279</u>	<u>\$ 1,746,576</u>

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Long-Term Debt

Long-term balances due at December 31 were as follows:

	<u>2013</u>	<u>2012</u>
Note payable to the South Dakota Drinking Water State Revolving Loan Fund, quarterly payments of \$9,615 including interest of 3%, final payment due October 2031. Secured by substantially all assets and service revenues.	\$ 533,419	\$ 555,462
Note payable to the South Dakota Drinking Water State Revolving Loan Fund, quarterly payments of \$3,098 including interest of 2.5%, final payment due April 2033. Secured by substantially all assets and service revenues.	190,767	198,271
Note payable, USDA Rural Development, interest at 4%, payable \$3,163 per month, due March 2050, secured by substantially all assets.	719,928	728,893
Note payable, USDA Rural Development, interest at 3.75%, payable \$3,438 per month, due July 2050, secured by substantially all assets.	820,140	830,431
Note payable, USDA Rural Development, interest at 3.25%, payable \$2,904 per month, due July 2050, secured by substantially all assets.	743,050	753,564
Bond payable, USDA Rural Development, interest at 3%, payable \$192 per month, due August 2050, secured by substantially all assets.	51,117	51,875
	\$ 3,058,421	\$ 3,118,496
Less: current maturities	<u>(62,060)</u>	<u>(60,070)</u>
Long-Term Portion	<u>\$ 2,996,361</u>	<u>\$ 3,058,426</u>

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Long-Term Debt (continued)

The following is a summary of changes in long-term debt:

	Debt 12/31/2012	New Debt	Retired	Debt 12/31/2013	Due Within One Year
State of SD-Revolving Fund	\$ 753,733	\$ -	\$ 29,547	\$ 724,186	\$ 30,405
USDA Rural Development	2,364,764	-	30,529	2,334,235	31,655
Total Debt	<u>\$3,118,497</u>	<u>\$ -</u>	<u>\$ 60,076</u>	<u>\$3,058,421</u>	<u>\$ 62,060</u>

Debt service is as follows:

	Interest	Principal	Total
2014	\$ 105,155	\$ 62,060	\$ 167,215
2015	103,102	64,113	167,215
2016	101,212	66,003	167,215
2017	98,794	68,421	167,215
2018	96,526	70,689	167,215
2019-2023	446,071	390,005	836,076
2024-2028	376,867	459,209	836,076
2029-2033	258,242	456,256	714,498
2034-2038	229,294	352,526	581,820
2039-2043	158,616	423,204	581,820
2044-2048	73,662	508,158	581,820
2049-2052	3,539	137,777	141,316
	<u>\$2,051,080</u>	<u>\$ 3,058,421</u>	<u>\$ 5,109,501</u>

Note 4. Lease Commitments

The District leases office space with payment due bi-annually and various equipment with payments due on a monthly basis. Lease expense for the year ended December 31, 2013 and 2012 totaled \$2,500 and \$6,249, respectively. These amounts are included in the Statements of Revenue, Expenses, and Changes in Net Position.

Future lease commitments are as follows:

2014	<u>\$ 2,500</u>
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FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Retirement Plan

All permanent full-time employees participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employee are Class A Members, as defined by the plan, and are required by state statute to contribute 6.0%. State statute also requires the employer to contribute an amount equal to the employee's contribution. The statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for the general employees only. The District's share of the contributions to the SDRS for the years ended December 31, 2013, 2012, and 2011 was \$4,287, \$5,161, and \$3,915, respectively.

Note 6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The District manages these risks by purchasing general liability, property, workers compensation, fidelity bond coverage, health and life coverage, and firm commercial coverage through private carriers. The District pays into the South Dakota Unemployment Compensation Fund to provide for unemployment insurance coverage.

The District believes such coverage is sufficient to preclude any significant uninsured losses to the District.

There have been no settlements exceeding insurance coverage in any of the past three years.

Note 7. Construction and Loan Commitments

The District had entered into a short-term loan agreement with CoBank to provide funding for a new well. The District has secured a loan and will refinance the short-term loan with funding from Rural Development in 2014. The following is the short-term loan activity for the year:

Beginning balance	\$ 239,892
Additions	666,949
Deletions	<u>-</u>
Ending balance	<u>\$ 906,841</u>

The District is currently in the process of digging and constructing the new well and expects to put it into service in 2014. The projected cost of the well is \$1,180,000. As of December 31, 2013, \$971,741 in expenses had been incurred.

FALL RIVER WATER USERS DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Subsequent Events

District management has evaluated subsequent events through September 29, 2014, the date on which these financial statements were completed.